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THE EDITORIAL INDEX OF COMPANIES REFERRED TO IN THIS ISSUE IS ON PAGES 248 AND 249.

COVER STORY

131 Dollars Ahoy!

By Howard Rudnitsky
and Richard L. Stern

Boat sales are booming. Is it the last hurrah of the consumer binge?

COMPANIES

33 MCA Inc.

By Allan Dodds Frank

Its stock yo-yos as rumors circulate. But is a takeover really likely?

38 L.B. Foster

By Jonathan Clements

What happens to LBOs in a recession? Ask L.B. Foster's shareholders.

48 The Up & Comers:

Sheshunoff & Co.

By Stanley W. Angrist

How Alex Sheshunoff is making a bundle teaching banking to bankers.

54 The Up & Comers:

Rocky Mount Undergarment

By Kerry Hannon

With success sometimes comes carelessness. Consider this case in point.

60 Parkdale Mills, Inc.

By Phyllis Berman

Forget trendy career choices, here's how to get rich in a dead-end job.

68 Teck Corp.

By James Cook

Building a big resource firm is tough, but Canada's Keevils are doing it.

85 Schering-Plough

By Gail Bronson

Does it need a blockbuster? Wall Street says it does.

88 Amoco

By Charles Siler

Why is it bidding nearly \$4 billion for Canada's troubled Dome Petroleum?

95 J.C. Penney

By Steve Weiner

Does it still secretly want to become Bloomingdale's someday?

112 Rykoff-Sexton

By Ellen Paris

Why does Roger Coleman want to shop some more?

178 PCS, Inc.

By Subrata N. Chakravarty

Looking for a firm with a dizzy P/E multiple? Try this Arizona highflier.

INTERNATIONAL

102 Up The River

By Edwin A. Finn Jr.

More than 1 million people live in a city 1,000 miles up the Amazon River. Why?

116 Europe's New Sick Man?

By Richard C. Morais

The engine of the 1970s, West Germany is now the anchor of the 1980s.

168 Russia: Arms Merchant

To The World

By Pranay Gupte

It's getting tougher for the U.S. to sell arms abroad, but not for the Soviets.

TAXING MATTERS

76 The Scariest Dinner

As IRS horror tales grow, politicians pant for a Taxpayers' Bill of Rights.

NUMBERS GAME

142 The Big Easy

By Jill Andresky

Want to sell an insurance firm the Brooklyn Bridge?

DEPARTMENTS

- 6 Side Lines
- 8 Follow-Through
- 12 The Informer
- 14 Readers Say
- 17 Fact and Comment
- 22 Other Comments
- 25 Fact and Comment II
- 251 Flashbacks
- 252 Thoughts

COLUMNISTS

- 235 Ben Weberman
- 236 Susan Lee
- 238 David Dreman
- 240 Stanley W. Angrist
- 242 Mark Hulbert

MONEY & INVESTMENTS

- 27 What's Ahead For Business
- 28 The Forbes Index
- 227 The Forbes/Wilshire
5000 Review

Cover photograph by
Frank Fournier/Contact Press Images



33 MCA



102 Manaus, Brazil



160 Rent a dog

INDUSTRIES

34 The Unloved Ones

By Toni Mack

Nobody wants to buy a Texas bank. But are things really that bad?

37 American Association Of Individual Investors

By Ruth Simon

James Cloonan makes millions from a magazine he can't own or sell.

92 As I See It "I Don't Trust Regulators"

By Janet Novack

Robert Litan has a novel idea for freeing U.S. banks from onerous restraint.

INVESTING

32 Côte De Fraud

By Marc Beauchamp

How the hustlers of Newport Beach get rich off America's patsies.

42 Cuba Sí, WPPSS No

By Matthew Schiffrin

Billions in busted bonds sell for a song, so pick wisely and profit.

157 Investing In The Dark

By Laura R. Walbert

Will insurance paying 12% make you richer than a policy paying 10%?

160 Animal Leasing: Rent A Dog

By Gail Buchalter

Lease one as a status symbol? You must be kidding! (We're not.)

180 Stale Dope

By Janet Novack

The SEC is doing a poor job of getting out news of insider stock trades.

184 Statistical Spotlight: Strictly By The Numbers

By Charles Siler

Does computerized stock-picking make money? For these folks it does.

230 The Money Men: Junkyard Analyst

By Jack Willoughby

In the slag heaps of low-grade credits, Philip Maffei helps pick and choose.

246 Streetwalker

Consumer spending; Acuson Corp.; Harman International; water utilities.

MARKETING

192 Who Cares What Eszter Balint Drinks?

By Barbara Kallen

Advertising with noncelebrity celebrities. Also: Suzuki brings its Samurai Jeep to the U.S.; Why you're seeing the same TV ads over and over.

TECHNOLOGY

200 Raychem: "Faster, Better, Quicker"

By Alyssa A. Lappen

Here's a U.S. company the Japanese haven't been able to lay a glove on.

203 The Devil We Know

By Subrata N. Chakravarty

Before taking Merck's anticholesterol drug, should you try vitamin B?

204 Your Humble Servant

By Esther Dyson

Using artificial intelligence.

PERSONAL AFFAIRS/CAREERS

206 Supercars

By Jerry Flint

A \$100,000 boat? Big deal. But a six-figure car? Now that's a statement. Also: Surviving the power breakfast; New ways to administer drugs; Sotheby's Art Market Trends.

216 All Kidding Aside

By Dyan Machan

A sense of humor can do wonders for your career (or ruin it).

FACES BEHIND THE FIGURES

222 James Cox Kennedy, Cox Enterprises

222 Charles Brown, West Virginia Attorney General

223 M. Stuart Millar, Piper Aircraft

223 Thomas Hale, Washington Apple Commission

224 Ke-ik Lee, Korea National Tourism Corp.

224 Willard Butcher, Chase Manhattan Corp.

224 Douglas Campbell, Coast Catamaran

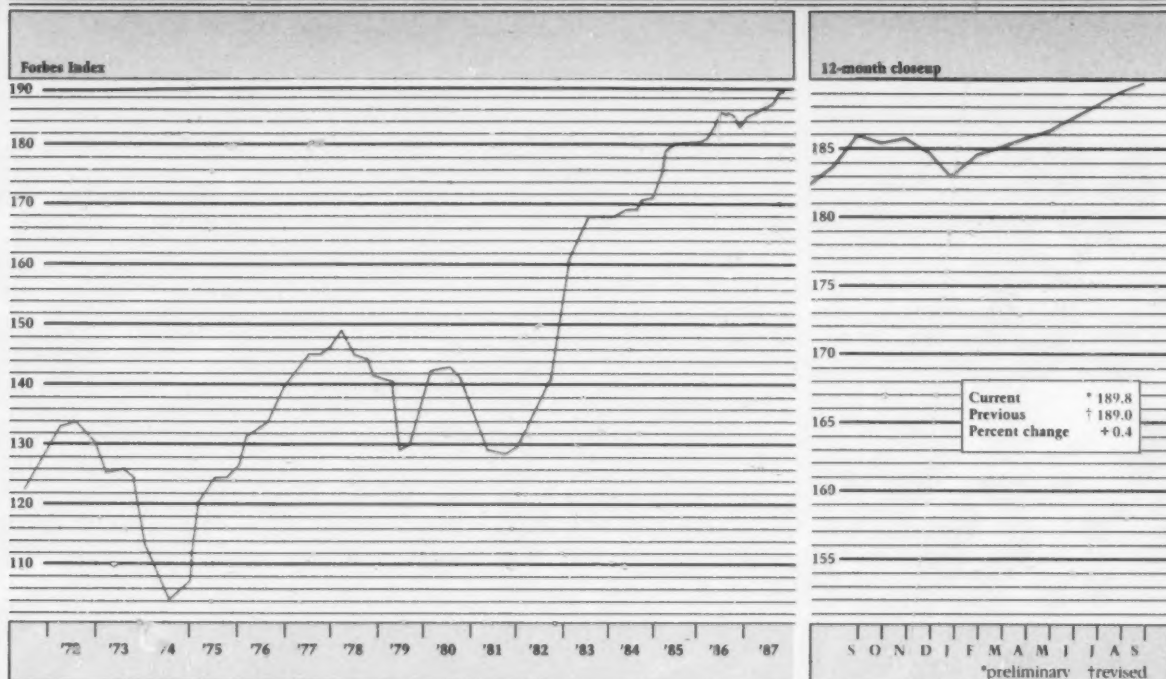
225 Robert Duncan, System Industries

225 Martha Phillips, Retailer

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The Forbes Index



Help wanted. The Forbes Index rose 0.4% during the most recent reporting period, as the current business expansion, now in its 60th month, continues to create jobs. The trailing six-month total for new unemployment claims went down 1.7% in September, marking 14 consecutive monthly declines. Also boosting the Index was the trailing three-month average of consumer installment credit,

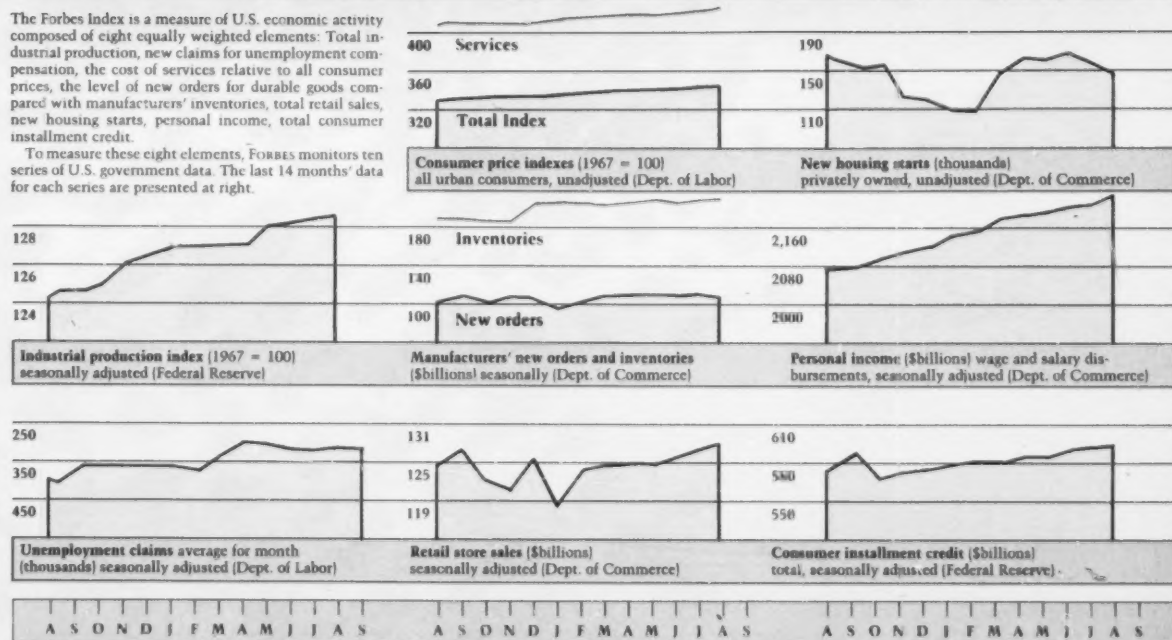
which increased 0.7% in August, to \$596 billion. Concerns over inflation, however, prompted the Federal Reserve to tighten money, which may put a crimp in both job growth and consumer borrowing.

In part because of a weakening of military orders, the ratio of manufacturers' new durable goods orders (three months to August) to inventories (August) fell 0.6%.

The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series are presented at right.



Billions worth of busted bonds sell for a fraction of par today. Investors who pick the right ones can make a tidy profit.

Cuba sí, WPPSS no

By Matthew Schiffrin

IHOPE TO LIVE to see the day that I am paid off on those bonds," says 96-year-old Ellen Snyder from a nursing home near Wichita, Kans. "I need the income. Those bonds were supposed to be paid off in gold."

Snyder is referring to the czarist Russian 5½s of 1921 that her husband bought in 1919 soon after the debt was repudiated by the Bolsheviks. At around \$500 for each bond with a \$1,000 face value, the bonds looked cheap. Sixty-eight years later, Snyder hasn't received one cent of interest. If she sold her bonds today she'd be lucky to get \$20 apiece for them.

But one person's loss can be another's gain: Buying the right defaulted bonds at the right price can be a rewarding affair. Holders of Avoca (La.) municipal bonds, which defaulted 60 years ago, foreclosed on Avoca Island and ended up with shares of the island worth, in the early 1980s, 180 times

their original investment. Max Heine and Michael Price have built Mutual Shares into a billion-dollar fund largely by buying the debt of firms in reorganization. Now, Drexel Burnham's Michael Milken aims to package for public sale the defaulted debt obligations of Latin American governments.

Investing in sovereign defaulters is tricky. There are often political problems along with the economic ones. Notwithstanding this fact, such Soviet satellites as Poland, Bulgaria, Hungary and Rumania have settled the millions in debt they inherited from previous regimes. Last December Czechoslovakia paid \$980 per \$1,000 bond to redeem issues from the 1920s that were due in the 1950s and 1960s. Since Czechoslovakia didn't pick up the omitted interest, it was stopping far short of full recompense to the bondholders, however.

Bolivian bonds are an interesting speculation at 12 cents on the dollar. "They just paid their Oct. 1 payment

on time," says an administrator at Bolivia's fiscal agent, the Bank of New York. "That was a real shock." Wall Street's skepticism about the bonds is playing into Bolivia's hands. The La Paz government is buying them up in the open market at a hefty discount to satisfy sinking fund requirements.

International law is often on the side of the creditors, but enforcement is another matter. Then there's a U.S. statute prohibiting financial transactions with any nation that has stiffed the U.S. government. But that law was of no help to U.S. individuals who bought pre-1949 Chinese government railway bonds. Last March the U.S. Supreme Court refused to review the dismissal of a bondholder claim against the Chinese government.

Why, then, are the czarist bonds trading as high as 2 cents on the dollar? A recent, modest settlement by the U.S.S.R. for bondholders in the U.K. has raised hopes. A group of 300 U.S. bondholders of Russian debt, led by Carl Marks & Co., a brokerage firm specializing in foreign credits, is valiantly pursuing the Russians in a U.S. appeals court.

There are deadbeats at home to rival the communists. Bonds issued by the Washington Public Power Supply System to finance its Projects 4 and 5 nuclear plants are in default because municipalities in Washington welshed on take-or-pay power contracts. WPPSS 4 and 5 bonds are trading at 12.5 to 15.5 cents on the dollar, lower even than pre-Castro Cuban bonds (see table). Apparently elected officials in Washington State are less reliable than communist dictators.

For smaller speculators in defaulted corporate and municipal bonds, a problem is getting information on the

The living dead

The ten bonds below are trading at bankruptcy prices, interest payment: Public Service Co. of New Hampshire, even though three issuers made their most recent

Issuer date of maturity	Amount outstanding (\$mil)	Issue date	Default date	Recent price (per \$1,000)
Ohio Air Quality Dev 6½% '98* (LTV)	\$13.5	1973	NA	\$730
Zapata Corp. 10½% '97	41.5	1977	1986	590
Public Service Co. of New Hampshire 17½% 2004	425.0	1984	NA†	390
Baker Industries 15½% 2003	65.0	1983	1985	368
LTV Corp 11½% '97	50.8	1985	1986	359
Intrepid Museum 12% 2012*	14.2	1981	1985	300
Cuba 4½% '77	44.4	1938	1960	185
WPPSS Projects 4 & 5*	2,250.0	1977-81	1983	125-155
Bolivia 3% '95	56.3	1968	NA†	120
Imperial Russian 5½% '21, 6½% '19	75.0	1916	1918	20

*Tax-exempt. †Company has announced it may not make interest payments. ‡Bond is current on interest but has history of late payments. NA: Not available or not applicable.

Sources: Foreign Bondholders Protective Council; Bond Investors Association; bond dealers; Moody's.



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issuers. One source is the *Defaulted Bonds Newsletter*, published by the Bond Investors Association of Miami Lakes, Fla. President Richard Lehmann, who serves on the bondholders committee for the WPPSS bonds, has been buying defaulted bonds for over 13 years.

Lehmann recommends buying corporates anywhere from six months to a year after a default. "During this time practically no information is available from the bankrupt entity," he says, and fear of the unknown depresses prices. Yet balance sheets from before the reorganization, and details of the bond indenture may show value in the senior securities. For example, less than a year after Beker Industries, a Greenwich, Conn.

**"[Bolivia] just paid
their Oct. 1 payment
on time," says a
bond administrator.
"That was a real shock."**

fertilizer company, filed for bankruptcy in October 1985, its \$65 million of first mortgage bonds traded as low as \$200 per \$1,000 face value. Lehmann says they're a buy today at \$368. The reorganization plan, which could be consummated by early 1988, calls for an exchange of each bond into an estimated \$560 of new preferred and common stock.

How about tax-exempt issues? Lehmann says there are 1,700 that have gone into default, most of them small issues with no governmental backing. (Only two municipal governments with investment-grade ratings have defaulted on general-obligation bonds in recent years, New York City in 1975 and Cleveland in 1978.)

One issue that Lehmann is following is the Intrepid Museum 16s of 2012, issued by a nonprofit organization to refurbish the aircraft carrier. A proposed settlement calls for bondholders to get \$230 per \$1,000, despite the fact that the bonds traded at \$940 just before they defaulted in 1985 and have traded above \$300 recently. Bondholders may fight in bankruptcy court for a better settlement.

The tax-exempt pollution control bonds associated with LTV's Youngstown Sheet & Tube division have been getting the attention of speculators. In August 1986, just after LTV filed for bankruptcy, the bonds traded as low as \$450 per \$1,000. But, thanks to a debt reserve account, these first mortgage bonds are current on their interest payments. They're going for \$730 now. ■

Boating sales, fueled by easy credit, are booming as never before. Is it the last hurrah of the great consumer binge? Or is boating's prosperity a demographic inevitability?

Dollars ahoy!

By Howard Rudnitsky
and Richard L. Stern

LAST YEAR J. Orin Edson, 54, sold his Bayliner Marine Corp. to Brunswick Corp. for a quick \$425 million and walked away with almost \$400 million of it in cold cash. Only weeks later Cornelius (Connie) Ray, 62, sold his Sea Ray boat company, Ray Industries, to Brunswick, for \$350 million. Edson joined the exclusive Forbes Four Hundred. (Ray, who shared ownership of the company with his employees, didn't quite make the list.)

America's current prosperity has been fueled by tax cuts and the most exuberant consumer spending in history. Surfeited with other consumer goods, affluent Americans have turned increasingly to buying boats. On easy—very easy—credit, of course.

Orin Edson and Connie Ray were a couple of smart businessmen in the right place at the right time. Over the last five years the two have been at the center of boating industry changes that have put fancy yet affordable recreational powerboating within the economic reach of more Americans than ever before. By streamlining boatbuilding and by transforming it into the low-labor-cost, high-volume business it is now, Edson and Ray have helped create a healthy and profitable manufacturing sector that is bringing jobs to small towns and cities throughout America.

The country's passion for boating is



Frank Fourtney/Contact

obvious on any fair-weather weekend on waterways from New York's majestic Hudson River to California's Avalon harbor off Catalina Island. At marinas across the country the shortage of docking space has produced long waiting lists of boat owners looking for somewhere to tie up. The slip scarcity has also created an only-in-America phenomenon, the docko-minium, where boat owners can buy their slips for prices ranging from \$1,000 per square foot to \$3,000 (FORBES, Sept. 21).

An estimated 100,000 Americans bought their first powerboats last year, most spending less than \$12,000. But boating turns out to be a particularly seductive addiction. Once they've bought in, people tend to keep on buying, so long as their money or credit holds out. So 350,000 to 400,000 boat owners last year trad-

ed up to more elaborate and usually more powerful craft.

It wouldn't be modern America if these were all basic open boats with outboard engines for dedicated sports people. Most are, but an increasing number are much more. The new trend is toward boats as family recreation centers. For the price of a good car Americans can buy a 20-foot-plus boat with a head, galley and cuddy cabin that will sleep mom and pop and a couple of kids. Beyond that, but still short of the traditional yacht, is the floating living room, replete with heating and air-conditioning. Air-conditioning? Absolutely. And a full array of electronics from satellite uplinks for navigation and communications, to radar, sonar fish finders and anticollision warning devices.

Joseph Yablonsky, a 47-year-old partner in the Minneapolis office of Laventhol & Horwath, a national accounting firm, has an air conditioner and heating system in his boat. These amenities extend the boating season on Lake Minnetonka, 20 minutes from downtown Minneapolis, where he docks his luxurious 43-foot Wellcraft Portofino. "It's so restful and wonderful," he says.

Add it up: air-conditioning, fish-finding equipment and the craft itself. It turns out that Americans spent more than \$7 billion last year on boats and another \$7 billion or so on boating equipment and services. That \$14 billion is more than they spent on cosmetics or dog food or rock music, and boating is growing faster than any of these. Motorboat sales have in-

creased at least 15% a year since 1982.

In boating, only sailboats are lagging, with total sales last year of about half a billion dollars. What's the matter with sailing? Too much effort and training required. And industry marketing surveys show that most buyers see sailboating as an elitist sport that is just too much trouble for most people. Powerboating, on the other hand, is regarded as an upwardly mobile, prestigious leisure-time activity. No mystery here. People buy boats to fish, water-ski, socialize and cruise America's waterways.

Is all this one more sign of the growing self-indulgence of the American people? Maybe, but the boating phenomenon has solid demographic underpinnings. The people of the so-called baby boom generation are moving into their boat-buying years. The rule of thumb is that folks catch boating fever between 35 and 45 as their incomes grow. First, people buy new cars, and then they start renovating their homes or buying new ones. After that they begin coveting boats. Buying boats is like eating peanuts: You can't stop at one. The urge is toward faster and bigger. There's even a name for this, says Jeffrey Napier, head of the National Association of Marine Manufacturers: the "five-foot-a-year disease."

Robert Zubrin, 49, of Cherry Hill, N.J., runs a window replacement business. He bought his first power boat less than a year ago—a relatively modest 21-foot Bayliner that cost him about \$18,000, with trailer. Early this summer he moved up to a \$35,000 25-footer that sleeps six. Zubrin, once an avid golfer, now spends weekends with his family cruising the Chesapeake Bay and is haunting boat shows in search of the right 32-foot craft.

Zubrin, most atypical for boat buyers, paid cash. But lenders, from your friendly local bank to GMAC, have found that boat loans are among their safest. So they are throwing money at aspiring commodores. More than that, Shearson Lehman Brothers intends to offer boat-loan-backed securities, just as it already does with mortgage-backed securities.

A majority of boat buyers this year will finance their purchase with an average loan of \$25,000. As with second homes and recreational vehicles, the interest on boat loans is tax-deductible so long as the boat has a head and cooking facilities. That's right: From the tax collector's point of view, a boat with a toilet and a galley is indistinguishable from a second home. No surprise, then, that some boats, even under 20 feet, come with

heads and galleys.

Lenders are knocking each other over in the rush to lend to boat-hungry consumers. Banners over some finance company booths at September's Norwalk, Conn. boat show were advertising 9.75% fixed-rate financing with 10 to 15 years to pay, depending on the size of the loan. Try to get those terms on a home loan these days.

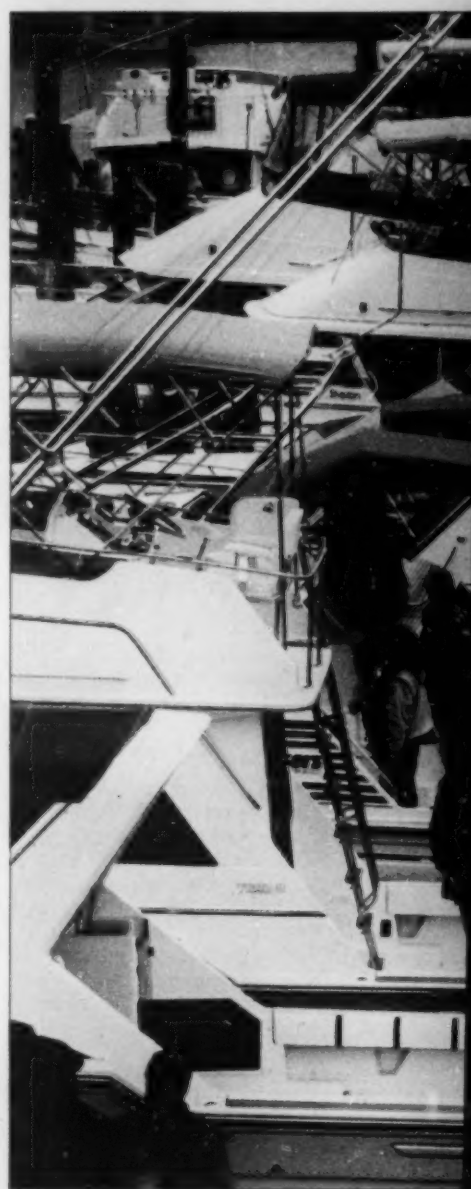
Who's cashing in on this nice little bonanza? Though just about anybody who makes a boat today is making a profit, the big money is made by a relative handful. Fifteen years ago boating was a small industry with hundreds of boatmakers churning up maybe a quarter of today's revenues. Today maybe 150 of these powerboat makers remain, and it is likely that in a few short years many of those will be gone as well. Changes in manufacturing methods have taken boats into the mass-production age.

In a few years a handful of companies will account for about half of industry volume as economies of scale, and the ability to spend big on advertising, innovation and dealer networks allow the survivors to shut out smaller, undercapitalized rivals. Certainly there will be small, independent boatmakers, but they will compete for regional markets or as niche players with specialized craft.

Already, four companies, Skokie, Ill.-based Brunswick, Genmar Industries in Minneapolis, Outboard Marine in Waukegan, Ill. and Miramar Marine Corp. out of Dallas, account for 30% of some industry sales, and next year it could be 40%. The industry's transformation happened so quickly that a couple of major players, the country's biggest enginemakers, almost got left at the dock.

Just a year ago it suddenly dawned on Brunswick, which makes the industry's top-selling Mercury power plants, and Outboard Marine Corp., maker of Johnson and Evinrude motors, that the boating boom was running away from them. The growing strength and profitability of the boat-builders meant that companies like Bayliner and Sea Ray were beginning to influence the price of engines used in their boats. That meant shrinking margins for the enginemakers.

So late last year Brunswick up and bought Bayliner and Sea Ray, paying \$775 million for the two largest boatmakers in the business. Brunswick accordingly became the giant of the industry. This year some \$2 billion, or two-thirds, of Brunswick's revenues and an estimated 70% to 75% of the company's profits will come from en-



gines and boats.

Outboard Marine Co. quickly followed suit, paying just under \$125 million for five smaller boatmakers, including Four Winns, which had tripled sales in the three previous years. Outboard Marine is the third-largest boatmaker, with boating sales of \$200 million this year.

There are two other big players. In Texas the Thompson family, which has been running Southland Corp. and the 7-Eleven chain, runs Miramar. Miramar now owns three boat companies, including family-cruiser maker Carver Boat Corp., with a little



Crowds at the Norwalk, Conn. boat show in September
Seductive addiction, reinforced by the "five-foot-a-year" disease.

under \$200 million in revenues.

The second-largest boatmaker is Minneapolis-based Irwin Jacobs and his Genmar Industries. Jacobs, better known as Irwin the Liquidator for his company's selling of surplus stocks, as well as for his habit of buying and stripping businesses, is serious about building a major boat company. Over the last few years he has snapped up a number of well-known companies, including Hatteras, long counted among the Rolls-Royces of production yachts. His fleet also includes the \$250-million-plus Wellcraft Co., which makes a full line of power-

boats—including the high-performance Scarab, of *Miami Vice* fame. All told, Genmar's revenues this year will be about \$460 million, second only to Brunswick in boatbuilding.

The growing power of the big four is impressive. While revenues for the powerboat industry have been growing at about 15% a year for the last five years, revenues at the big four are growing by two to three times that. At Brunswick it is likely that Bayliner's sales for 1987 will come in at \$550 million, nearly a 30% rise over 1986, according to President Vinton (Slim) Summerville. Sea Ray's revenues

should be up at least 30%, to \$450 million, says Connie Ray.

What paved the way for the emergence of major boatbuilders were the changes in manufacturing methods. This made it possible to mass-produce boats with low labor costs. Orin Edson was a Seattle boat dealer who realized in the 1970s that he would make more money if he manufactured the boats he sold. With the advent of fiberglass as a construction material, boatbuilding had become a likely candidate for mass production with relatively unskilled labor, and without a huge investment in plant



Outboard Marine Corp. Chairman Charles Strang piloting a Four Winns on Lake Michigan. He almost missed the boat.

Richard Dierk

and equipment. A typical boatbuilding plant of Bayliner or Sea Ray costs only \$2 million, and most of these plants are situated in small towns where nonunion labor is reasonable and cooperative.

Tooling? Not dear. Most new boat models cost \$50,000 to \$100,000 to create. Fashioned first in wood, the model is sprayed with fiberglass and sanded smooth to create a plug. The plug is then coated with fiberglass to make a hollow mold. Waxed and sprayed with fiberglass, the mold is used again and again to make hulls and decks that are then assembled into finished boats.

Need increased manufacturing capacity and another assembly line? Just make another set of molds. Connie Ray appreciated the appeal of fiberglass for boatmaking early on. He maintains he started building boats because he found his original business, manufacturing fiberglass cof-fins, too depressing.

Throughout the 1970s Edson built boats for other dealers as well, and Bayliner began moving east. By 1980 revenues were \$80 million, which then was enormous for a boat compa-

ny. But in 1981, as interest rates hit near 20%, Bayliner's revenues sank to \$50 million and profits almost disappeared. Edson's solution was patterned after Henry Ford and the Japanese automakers.

As late as 1980, a lot of boats were built to order. The buyer had a huge choice of options, which included color, seating, engine size, radio, depth-finder, etc. Large and varied inventories were the costly rule. Edson changed that. Like the Japanese, Edson loaded his boat with options, including a trailer, and made them standard equipment. Like Henry Ford, he offered a very limited selection of colors. (Ford, as you'll recall, once decreed customers could have any color car they wanted so long as it was black.)

At first, Bayliner's dealers groaned and insisted they could never sell cookie-cutter-produced boats like that. They were wrong. Buyers were delighted. They got more boat for their buck. They took delivery faster and in most cases could be on the water the same day they signed the papers. Perfect for the Dr. Spock generation.

Equally important, standardization reduced the cost of producing the boats. The cost of labor alone, without those work-intensive special orders, dropped from around 20% of the cost of the boat down to 8% to 12%. One result: Between 1982 to 1986 Bayliner boat sales improved from 5,000 to 47,000 units, ranging from \$5,000 15-footers that come with trailer and 50hp engines to 45-foot diesel-powered craft that cost almost \$300,000.

While Edson was building a Ford, Connie Ray was building a reputation for a more expensive, well-engineered, high-quality craft, with a price tag of up to \$350,000, but also produced in volume. Ray, smartly, not only targeted the right lucrative audience but also made sure his dealers got rich. He earned their loyalty by producing a fine product and letting his dealers open in as many as three different locations. Most companies restrict their dealers to one showroom apiece.

Today a Sea Ray dealership (there are only 130) is easily one of the most sought after in the industry. When Ray sold out to Brunswick last year,

Full steam ahead

The powerboat business has become increasingly dominated by four major companies, which this year should account for 30% of industry sales. The four have acquired 15 boat manufacturers altogether, among them

some of the biggest and best-known names in the industry. Their boat lines range from simple craft, affordable family boats, all the way up through yachts costing over \$1 million.

Size range (in feet)		Prices*	
Brunswick Corp. (estimated 1987 boat sales: \$1 billion)		19-foot Bayliner Capri	
Bayliner	15 to 45	\$5,000 to \$250,000	Largest pleasure-boat maker. Family boats: runabouts to diesel yachts
Sea Ray	16 to 46	\$8,000 to \$345,000	Sportier, higher-priced craft. Runabouts, high-performance speedboats, fishing boats, cruisers
Genmar Industries Inc. (estimated 1987 sales: \$480 million)		43-foot Wellcraft Portofino	
Size range (in feet)		Prices*	
Lund	12 to 21	\$900 to \$20,000	Aluminum and fiberglass fishing boats
Glasstron	16 to 23	\$5,000 to \$28,000	Runabouts and powerboats
Larson	15 to 30	\$4,000 to \$58,000	Family boats: runabouts to small cruisers
Wellcraft	17 to 50	\$4,000 to \$200,000	Sportier craft: family cruisers, high-performance speedboats and sleek cruisers
Hatteras	32 to 77	\$117,000 to \$1.8 million-plus	Rolls-Royce-class motor yachts, sport fishing boats
Miramar Marine Corp. (Thompson family) (estimated 1987 sales: \$175 million)		Ranger's Commanche bass boat	
Size range (in feet)		Prices*	
Ranger Bass Boats	15 to 20	\$12,000 to \$20,000	Fiberglass bass boats
Carver	21 to 42	\$21,500 to \$252,000	Sports and family boats and cruisers
Californian Yachts	42 to 55	\$209,500 to \$458,000	Luxury yachts
Outboard Marine Corp. (estimated 1987 boat sales: \$200 million)		Four Winns Candia	
Size range (in feet)		Prices*	
Lowe	8 to 30	\$1,000 to \$30,000	Aluminum fishing boats, general-utility, aluminum pontoon boats
Stratos	16 to 21	\$7,000 to \$20,000	Runabouts, high-performance bass boats
Sunbird	16.5 to 23	\$8,400 to \$20,000	Runabouts, performance boats
Seaswirl†	16 to 22	\$9,800 to \$21,000	Small powerboats
Four Winns	16 to 33.5	\$9,600 to \$78,000	Runabouts to family cruisers

*Base prices. †Made by Bramco.

14 of his executives became millionaires—8 of those became multimillionaires.

Jacobs, perhaps because of his mass-merchandising background, took a different tack. Jacobs' dealers blanket the country, the more the merrier. With the acquisition of Glastron Boats, Genmar now has more than 1,000 outlets.

"Dealers are the key to selling boats," says Jacobs. And having five boat lines, with different brand names, is a way of getting more dealers without offending existing dealers. Outboard Marine knows this, too. Its Evinrude and Johnson brands are identical engines that are sold by different dealers. Bayliner is now introducing a new upmarket line of boats called Maxum that will be sold through an entirely new dealer network.

The surprise in all this was that, as sales began escalating, the boat-



Brunswick Chairman Jack Reichert
Almost overnight, a giant.

builders were picking up most of the profits and the engine builders were eating low on the hog. Customers shopped for boats, not engines, so the boat dealers were able to play one enginemaker off against another for the biggest discounts. The shrinking margins on engines hurt the manufac-

turers badly, because they were all putting out much the same product and engine-making is a capital-intensive business.

Then, as if they didn't have enough problems, U.S. manufacturers in 1983 suddenly had Yamaha breathing down their necks. The nifty Japanese made a better engine; more reliable, more economical and more impervious to saltwater corrosion than anything then put out in this country. Now, even though the rising value of the yen has pushed its prices higher, Yamaha has built a reputation for excellence akin to Honda and Toyota in cars. "Yamaha came in here, looked at what was wrong with American engines and then proceeded to make a better one," says Reggie Fountain of high-performance Fountain Powerboats.

Which is why Brunswick and Outboard Marine began buying boat-



Genmar's Irwin Jacobs
Blanketing the country with dealers, the more the merrier.

makers. It would give them a captive market for their engines and a profit on the whole sale, not just on the most capital-intensive and low-profit part of it. The boatbuilding part, moreover, is pretty safe from Japanese competition. Except at the high end of the boat market, freight costs are too high to permit shipping the product a long distance.

Watch out for the Koreans, though. Hyundai recently announced that it would begin selling luxury yachts, 35 feet and up, by next summer. But even the Koreans admit that they can't

compete in the main segment of the market, smaller boats.

No doubt boating does have two things going for it: the demographics of an aging population with more discretionary income, and the psychology of self-indulgence.

But how long can the buying continue at the present pace? How much more debt can U.S. consumers take on? What will happen when the economy turns down?

Answers Irwin Jacobs, boasting of the advantages of size: "We can make a small profit even if there's a 40% to

50% downturn." During the 1970s oil embargo, he recalls, the boating business turned down about 25%, and yet well-run companies still made a little money. "When the next downturn comes," says Richard Genth, chairman of Donzi Marine, known for high-performance speedboats, "the big boys will catch a cold, but the smaller guys will get pneumonia."

In any case, when it does come, neither Orin Edson nor Connie Ray will feel any pain. They were smart enough to sell out at what could well be the top of the market. ■

What might have been

Perhaps this country's best-known name in boating, Chris-Craft shows what can go depressingly wrong when a family-owned business gets gobbled by the wrong conglomerate.

Two years before Carl Friedrich Benz patented the automobile in 1886, Christopher Columbus Smith built the powerboat in Algonac, Mich. Ten years before that, he had founded Chris-Craft. For generations, graceful, wood-hulled Chris-Crafts dominated the market, even more than General Motors once towered over the automobile business. At one time Chris-Craft sold more pleasure powerboats than the next 70 companies combined.

By 1960 sales had powered up to \$48 million—maybe \$180 million in current dollars. The Smith family finally cashed in and sold out for \$40 million to the Delaware-based Nafi Corp., a conglomerate that also made auto parts, was in oil and gas, and owned TV stations. Nafi became Chris-Craft Industries, Inc. For the next nine years Chris-Craft clung to its number one spot in the industry and boosted sales to nearly \$70 million.

Then the dealsters moved in. In 1969 financial man Herbert Siegel acquired control of the company and later ousted Nafi's management.

From then on it was downhill. The Siegel team seemed little interested in profitably running a boat company. It was more interested, on the other hand, in using the company's \$10 million cash in an extended but unsuccessful attempt to buy Piper Aircraft.

By the 1970s fiberglass had come into its own as a boatmaking material, but Chris-Craft was slow to get the message. It steadily lost money and market share, and by 1981 sales had fallen to \$26 million and the company's dealer network was down to 30, from a high of at least 300.

By the end of that year Siegel had amassed a conglomerate

of television and entertainment properties. By the terms of a complex deal set in December 1981, he sold off Chris-Craft boating operations for some \$8 million.

The buyers were a group of investors led by G. Dale Murray, a real estate and coal mining dealmaker, and attorney F. Lee Bailey, who talked Murray into buying the sick company and then joined the board. Richard Genth, who had briefly run Chris-Craft for Siegel, also put money into the company.

Though little else was left, Chris-Craft still had a magic name, and Murray and Genth capitalized on that. They poured money into the company, hired a top-notch

boat designer, added new dealers (now 225) and bought two small boat companies. Their timing was exquisite. The boat business began booming, and by the end of 1984 sales had risen to about \$120 million.

But running a tight operation apparently was not Genth's strong point. Chris-Craft had an inventory "shrinkage" problem that cost the company most of its

profit that year. Murray finally eased him out in August 1984, and Genth went off to form his own company, Donzi Marine.

Since that time sales increased more modestly, to an estimated \$175 million last year. But difficulties persist. Last year Chris-Craft had a quality control problem involving over \$1 million worth of boats. The problem, according to other industry executives, was a familiar one: distracted management. "Murray was distracted by a problem in a Florida real estate venture," says one top executive. "He's involved in too many deals. He's not in the boating business every day." As a result, Murray sold 44% of the company to the near-billionaire Saudi investor Ghaith Pharaon in December 1986. Now, Murray says, things are picking up, but that remains to be seen. No matter what happens now, Chris-Craft is unlikely to be what it once was.—H.R.



A 1940s Chris-Craft runabout
Almost swamped by the wrong conglomerate.

As it gets tougher for the U.S. to sell arms abroad, it gets easier for the Soviets. They reap advantage both in money and in political influence.

Russia: arms merchant to the world

By Pranay Gupte

THE THIRD WORLD arms trade is becoming a buyers' bazaar. Worth \$58.3 billion in 1982, according to Richard F. Grimmett of the Congressional Research Service, the business was \$29.2 billion last year.

Like auto manufacturers loaded with excess inventory, the sellers are

offering easier and easier terms and jostling one another for business. In 1985 Saudi Arabia wanted to add one or two squadrons at \$30 million a plane of McDonnell Douglas F-15 interceptor jets to the 60 jets the Saudis already owned. The Israelis objected. The Saudis gathered their robes and went shopping in Europe. The French were eager to sell Mirage 2000 fight-

ers, but the Saudis awarded an \$8.2 billion contract to British Aerospace for 72 Tornados, 30 Hawk jet trainers, 30 Swiss-made Pilatus PC-9s turbo-prop trainers, plus missiles, ammunition and spare parts. The deal ensured that the British manufacturer and its West German and Italian partners would stay in good health for several more years. Prime Minister Margaret Thatcher personally thanked Saudi King Fahd.

Many European armsmakers, and not only the "peace-loving" Swedes (*FORBES*, Oct. 19), are struggling for survival and—unbound by naive American concepts of morality—are offering blandishments in various forms as never before.

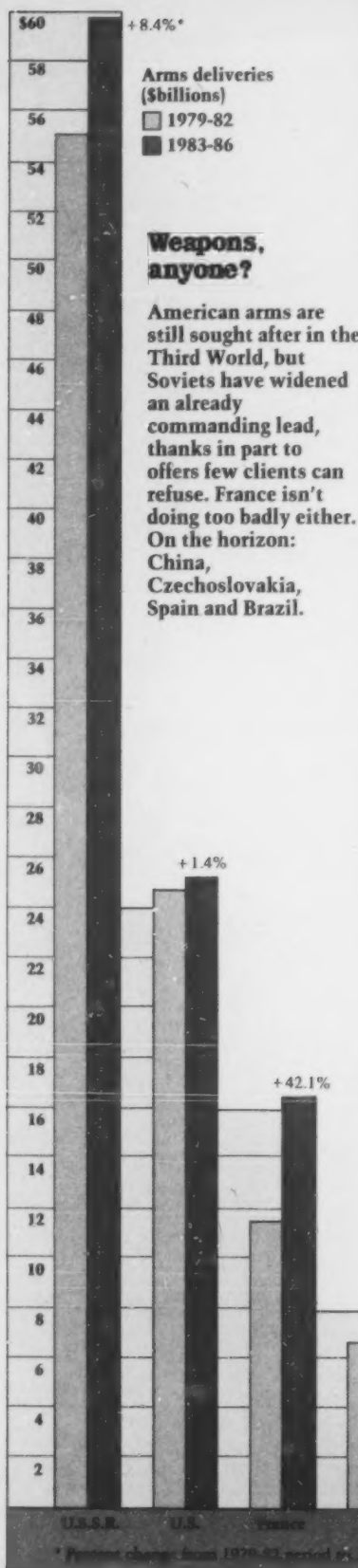
The major European suppliers—France, West Germany, Britain and Italy—have increased their share of weapons exports to the Third World. Figures from the Stockholm International Peace Research Institute (SIPRI), comparing 1977-81 sales with 1982-86 sales, show that the combined share of these four European arms producers rose from 23% to 28%.

Take Peru, a bankrupt nation, steeped in poverty. But when it comes



University of Sussex defense researcher Chris Smith
"Try to match that," he says of Soviet incentives.

Stuart Franklin/Magnum



to arms, Peru believes in going first class. Its air force consisted of aging Soviet-made Sukhoi Su-22 fighters. In 1985 and 1986 the generals wanted to buy the advanced F-16 plane from General Dynamics. Washington dragged its feet: Would it be proper for an impoverished nation to waste money on arms? The French jumped in, and the Peruvians bought 15 Mirage 2000 fighters. Will Peru be able to pay for the planes? Maybe not, but the order keeps French workers working and the French aircraft industry alive.

Elsewhere, the number of suppliers is increasing faster than the number of customers. Newly industrialized Third World suppliers are getting into the act, offering easy credit terms and a dazzling array of low- and medium-tech weaponry. According to SIPRI, 26 Third World countries produced and exported \$11 billion worth of weapons last year. According to the Congressional Research Service (CRS) of the Library of Congress, China alone delivered \$7.3 billion in weapons to the Third World between 1979 and 1986. For the same period, South Korea sold \$2.7 billion; North Korea around \$2.5 billion; Brazil, \$2.2 billion; Czechoslovakia, \$3.7 billion.

Says Professor Stephanie Neuman, an arms-trade specialist at Columbia University: "What you have is countries that you never really thought of as major arms suppliers now getting a large share of the market either as surrogates of the superpowers, or doing a dandy business earning foreign-exchange for themselves."

In 1985 Brazil outbid British Aerospace in selling 130 Tucano trainer planes to Britain's Royal Air Force. The size of the sale was unprecedented for Brazil. And it's rare that a NATO country goes outside its ranks to make such a big purchase. Brazil has some 350 companies involved in producing planes, tanks, armored personnel carriers and other defense items, primarily for the Middle East and Africa. More than 200,000 Brazilians work for these companies.

Few Third World manufacturers lay claim to original designs, of course. In

arms, as in apparel, the developing countries' producers are proficient imitators. The Chinese, for instance, have imitated the U.S. M-16 automatic rifle, which is produced by Colt Industries. Colt's M-16 retails for \$660 per rifle, the Chinese version for \$185.

Chilean engineer Carlos Cardoen copied a U.S.-made cluster bomb, and his bomb—which contains explosive canisters—sells for \$600, compared with \$2,000 for the original.

In this increasingly competitive business, one old-line supplier is more than holding its own: the Soviet Union. According to Richard Grimmett, Soviet weapons exports in 1986 hit \$12.6 billion, triple the U.S.' \$3.9 billion. The U.S. Arms Control & Disarmament Agency estimates that 15% of Soviet exports consists of arms sales, compared with 4% for the U.S.

According to the CRS, the Soviets delivered \$60 billion in arms to the Third World in 1982-86. U.S. deliveries? Around \$25 billion.

Like any good supplier, the Soviets sell and deliver arms quickly: no fuss over congressional approval, no waiting. For instance, when the Marxist military dictatorship in Ethiopia wanted a ton of ammunition and 50,000 Kalashnikov AK-47s to fight neighboring Somalia in the late 1970s, Moscow shipped the goods literally overnight. When India and Pakistan went to war in 1971 for the fourth time and Washington suspended all arms shipments to New Delhi, Moscow airlifted tons of guns and ammunition to the Indians within hours of New Delhi's request.

The Soviets shrewdly mix hard business deals with political trading. To help swing India's purchase of Soviet-made guns, planes and ammunition in 1980, Moscow offered an 8-year grace period on payments, 12 years to pay after that, annual interest of barely 2.5% and payment in non-convertible Indian currency. "Try to match that," says Chris Smith, defense and disarmament researcher at Britain's University of Sussex. While the deal earned Moscow no hard currency, it cemented relations with

Russia's friends in New Delhi. If India could not pay in hard cash, it could pay in denouncing the U.S. in the United Nations.

The Soviets can drive a hard bargain. In exchange for helping Ethiopia crush rebellions in Eritrea and successfully counter neighboring Somalia's attempts to "liberate" Ethiopia's Ogaden province in the late 1970s, the Soviets reportedly demanded and received part of Ethiopia's coffee production, the impoverished country's principal foreign exchange earner. While Ethiopian children starve, the Marxist government picks up the tab for Russian advisers and has paid some \$2 billion in Soviet arms through the coffee barter. Western diplomats based in Addis Ababa point to 1978, when Ethiopia's rulers reportedly bartered \$63 million worth of coffee for East German trucks that proved unsuitable for the rugged Ethiopian terrain, tractors that sputtered and some spare parts.



Professor Stephanie Neuman of Columbia University
Arms sales are "a dandy business."

Another African state whose people are chronically malnourished, Mozambique, traded away valuable fishing rights to Moscow in exchange for weapons.

India gets special treatment—not out of sentiment but because the So-

viets cannot issue direct orders to an Indian government. One incentive the U.S.S.R. offers its best customers is license production, an arrangement that allows them to manufacture

Russian-patented goods under certain guidelines. During 1985 and 1986, the Indians were considering a French offer for additional Mirage 2000s for their air force. Moscow countered with a deal to supply some 45 copies of its latest fighter jet, the MIG-29—and an agreement to allow India eventually to manufacture the sophisticated plane at a Hindustan Aeronautics plant, which already assembles MIG-21s. The Soviet decision was unique because Moscow hadn't

yet sold the MIG-29 to anyone else.

That deal set a precedent: Britain will allow India to assemble locally 47 Jaguar fighters. Say this for the Indians: They demand a stiff price for the political support they give the Soviets on the international scene. ■

The arms bazaar: a Third World shopping list

Rising debt? Deteriorating economies? Never mind. Developing countries still have an insatiable thirst for

weapons and ammunition. Never mind, too, that much of their purchases are for show.

Light weapons



Light antitank weapons (LAW):



9mm pistols

Hungarian P87, Walther P88.....\$100 to \$600

M-72, M-16a2 (U.S.)

RPG7, RPG18 (U.S.S.R.).....\$1,500 to \$2,000

Light machine guns

Kalashnikov AK-47 (U.S.S.R.).....\$150

American M-16.....\$650

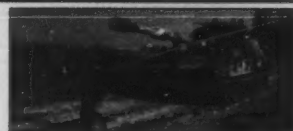
Austrian AUG, Belgian FN FAL

RPD, RPK (U.S.S.R. or East Bloc).....\$900 to \$1,400

M-60 (U.S.), MG1 (West Germany)

GPMG (U.K.-Belgium).....\$2,500 to \$3,500

Medium weapons



150mm.....\$900,000

Bofors 155mm howitzer.....\$2 million

Heavy machine guns

50 caliber, HBM-2 (U.S.).....\$5,500 to \$8,500

GPU 14.5mm (U.S.S.R.).....\$2,500 to \$3,500

Aircraft



Hawk trainer (U.K.).....\$8 million

Tomado (U.K.).....\$20 million

F-16 (U.S.).....over \$13 million

Photos: left, Interarms; right, top to bottom, Jane's Defence Weekly, Richard Bockley/Stockphotos Inc., Arnold Meisner Photography

for appetite suppression. And health food stores sell an Oros system dispensing vitamin C. (The system is impractical for insulin, however, since dosages are too difficult to control as needed.)

Inhalants, however, may one day finally provide diabetics with freedom from syringes or even Power Patches. California Biotechnology of Mountain View, Calif. now has such an inhalant in the developmental stage. Diabetics would still have to monitor their blood sugar levels to know when they require insulin, but they could get the drug into the bloodstream quickly and painlessly with an inhaler. The company expects to see the inhalant on the market by 1992, and it is also developing inhalers for birth control, appetite suppression and growth hormone release.

The beauty of inhalants is not just ease of use, according to John Longenecker, vice president of development at Cal Bio. It can also improve the body's ability to make use of the drug being delivered.—Francesca Lunzer

Letting the headhunters know

Broadcasting a résumé to a battalion of headhunters is an awfully tempting way for the newly beached to begin a job search. Would that you could simply push a button and have your *vita* instantly in the mails to all the nation's major recruiters. Well, now you can.

Custom Databanks has devised a computer program called the Executive Search System, which contains a database of up to some 1,400 recruiters. It allows you to print personal cover letters, envelopes and mailing labels yourself, without going to costly word processing services. Then you simply slip your résumés and letters into the addressed envelopes, mail and pray. The database can be broken down by region (city or state), by specific industry or job category, by minimum salary, by assignments each firm accepts, even by whether the search firm works on a contingency (fee) or retainer basis. (Those working

on retainer usually have the higher-paying positions.)

The two-diskette system requires at least 320K of capacity in your computer. It is tailored for computer novices, however, and even the computer-illiterate should be able to use the system on a friend's personal computer. Cost is \$50. Write to Custom Databanks, Inc., 127 East 59th St., New York, N.Y. 10022.

If you're computer-shy, you can buy 2,542 preaddressed labels from the *Directory of Executive Recruiters*, Templeton Road, Fitzwilliam, N.H. 03447. Covered are some 1,600 headhunters, including local offices. Cost is \$160. If you want labels for the 1,170 headhunters working on retainer, the fee is \$75. But anyone trying to turn headhunters' heads should have a copy of the directory, not only for addresses but for names and phone numbers of key recruiters. The fee: \$24.95 prepaid, \$28.95 mailed.—W.G.F.

Tracking prices in the global gallery

THERE'S NO TELLING where the collecting bug—the passion to own beautiful things—will strike next. Affluence, education, the search for status ... all manner of forces are at work here.

The surest sign is the astonishing amount of fine art now being bought and sold every year. The combined value of works of art annually sold worldwide by Sotheby's and Christie's, the two largest auction houses, now exceeds \$2 billion, up sixfold from around \$330 million a decade ago. It's not just inflation. Prices of beautiful things—paintings, sculpture, *objets*—have risen by a factor of four over the same period.

The action is global and, thanks to the growing role of the auction houses, increasingly visible. With that in mind, *FORBES* introduces in this issue a new feature—Sotheby's Art Market Trends. It is intended to help *FORBES* readers follow the action in prices in the art market generally and prices of specific kinds of artwork particularly. Having monitored the art market closely for years, Sotheby's has built a formal price index to measure the swings in prices in 13 major sectors of the art market. It does not predict prices. It won't tell you whether a particular work is "worth" the asking price. But it provides, easily and clearly, historic perspective on

where prices are at the moment.

The indexes will be updated monthly. Accompanying the tables will be comments highlighting transactions of note and other events affecting the market.

A word about how the index is constructed. Just as the familiar Consum-

er Price Index maintained by the Bureau of Labor Statistics notes price changes for a fixed "basket" of goods, Sotheby's uses a range of artworks in its index. Thirteen kinds of artwork are tracked individually. These sectors constitute the major part of the artworks sold at auction around the world. Jewelry is excluded because prices are influenced by the value of metals and gems. The purpose of the



*Drawing room of Tynninghame House, East Lothian, Scotland
Continuing strength in the furniture sector.*

index, remember, is to signal changing values of works of art as such.

Sotheby's consulted numerous experts to create a basket of objects for each sector represented. For English silver, as a case in point, authorities were asked to make a representative selection of objects regularly appearing at auction—17th- and 18th-century candlesticks and trays, for example—and a selection of examples by important craftsmen working in the medium. A total of 48 pieces were selected for this sector.

The objects included in each sector were deliberately selected from the middle range of the market. Examples of the most expensive items were excluded because they appear in sales-

rooms so infrequently, making them unrepresentative of their sector. Similarly, objects from the low end of the range were left out because of their limited interest to serious collectors.

Each sector is constantly reviewed, and values are revised in light of action at major salesrooms around the world—not at Sotheby's alone. Values may be reviewed, too, when an important exhibition is staged or a major scholarly work is published.

When a revaluation is made, the value of each constituent item is reassessed in the light of prevailing market conditions. The total value of items in the category is then calculated and compared with the corresponding figure in the base year (1975).

Finally, each sector in the index is weighted to produce an overall "aggregate" index number. The weights represent the estimated long-term contribution of each sector to sales in the art market as a whole.

Weighting the sectors in this fashion is rather like the weighting that goes into Standard & Poor's index of 500 stocks. But the resemblance ends there. S&P prices are set in the stock market alone, but valuation of the art index, as noted, takes into account other factors such as the overall market climate for particular works.

That understood, FORBES hopes readers will find Sotheby's Art Market Trends interesting and, if they venture into the art market, useful. ■

Sotheby's art market trends

Index sectors	Sept 1987	One month ago	One year ago	Two years ago	Five years ago	One month % change	One year % change	Two year % change	Five years	
									% change	average annual % change
Old Master paintings	349	349	303	289	199	nil	+15.2	+20.8	+75.4	+11.9
19th C. European paintings	303	303	250	249	183	nil	+21.2	+21.7	+65.6	+10.6
Impressionist & Post-impressionist art	661	661	432	371	255	nil	+53.0	+78.2	+159.2	+21.0
Modern paintings (1900-1950)	666	666	429	342	245	nil	+55.2	+94.7	+171.8	+22.1
Contemporary art (1945 onward)	597	597	542	488	333	nil	+10.1	+22.3	+79.3	+12.4
American paintings (1800-pre-WWII)	789	789	687	635	459	nil	+14.8	+24.3	+71.9	+11.4
Continental ceramics	320	320	290	284	266	nil	+10.3	+12.7	-20.3	+3.8
Chinese ceramics	550	550	486	486	460	nil	+13.2	+13.2	+19.6	+3.6
English silver	349	349	338	298	183	nil	+3.3	+17.1	+90.7	+13.8
Continental silver	201	201	192	178	134	nil	+4.7	+12.9	+50.0	+8.4
American furniture	452	452	380	324	213	nil	+18.9	+39.5	+112.2	+16.2
French & Continental furniture	319	319	285	273	234	nil	+11.9	+16.8	+36.3	+6.4
English furniture	594	594	447	382	263	nil	+32.9	+55.5	+125.9	+17.7
Aggregate index*	475	475	369	336	251	nil	+28.7	+41.4	+89.2	+13.6

Basis: 1975 = 100 (\$).

*Contemporary art was added to the Art Index in September 1987. The aggregate index excludes this category prior to that date.

©Sotheby's 1987

Monthly highlights

The 1987-88 art market season "officially" began in September but, as usual, business activity won't move into full gear for several weeks. English furniture and French and Continental furniture are the only mainstream market sectors to have been tested. A routine auction of French and Continental furniture in New York was in line with expectations. In the U.K. the contents of two country houses were sold—Tyningham in Scotland and Orchardleigh Park in Somerset, England.

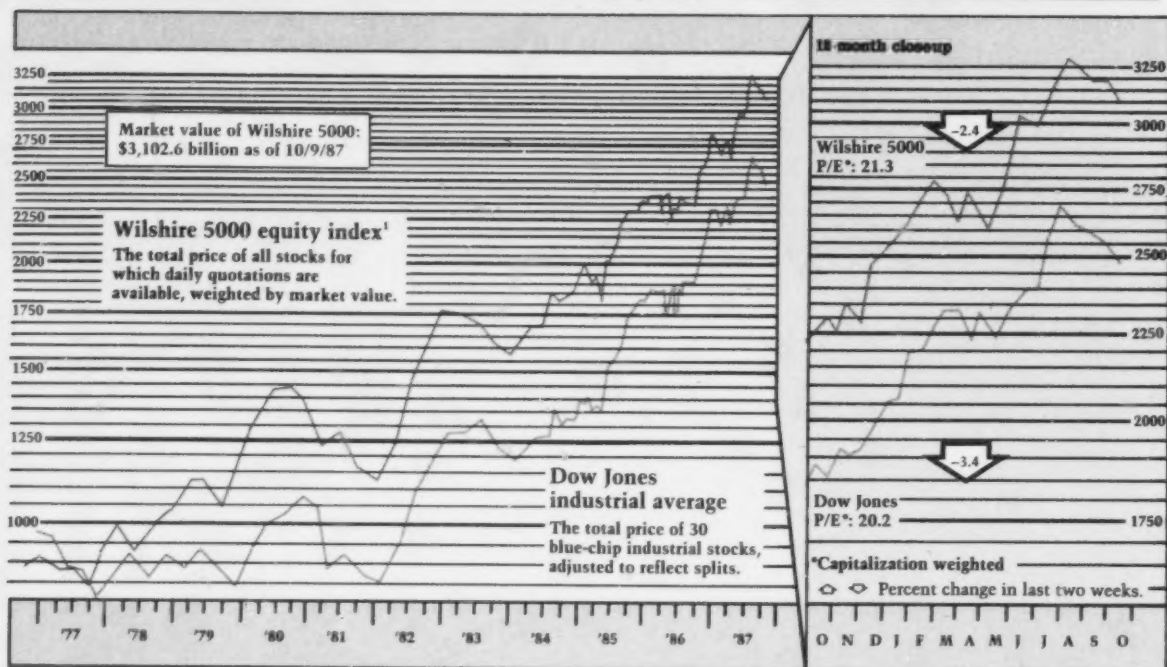
House sales almost always produce good results; the sense of occasion often encourages buyers to bid more actively than they might in the auctioneers' salesrooms. Indeed, at Tyningham an English private

buyer paid a top price of over \$179,000 for a mid-18th-century Dutch marquetry French-style commode, over three times the top estimate. The sale as a whole brought over \$6 million, almost twice the advance estimate. The Orchardleigh Park sale also produced a good pointer to the present state of the market. A mixed selection of furniture, Old Masters and other works realized a total of about \$2.3 million, with only 1% remaining unsold.

Because of the special nature of house sales, their results have to be discounted to a certain extent. Nevertheless, the success of the two houses, following the healthy performance of the furniture market last season, suggests continuing strength in this sector.

The Forbes/Wilshire 5000 Review

Edited by Steve Kichen



Letting off steam. The Dow's 92-point fall Oct. 6 gave the average its worst week in history, a drop of 159 points. The Dow is now off 240 points, or 8.8%, from its alltime peak on Aug. 25. In the same period, the overall market as measured by the Wilshire index lost \$220 billion in capitalization. What did investors cash in? Mostly blue chips and primary issues. Since Aug. 26, when it peaked, the Nasdaq lost 3.7%, less than half the decline in the Dow. In the last two weeks the Nasdaq lost 0.8%, vs. 3.4% for the Dow.

The P/E ratio (based on latest 12-month earnings) for the Wilshire index fell to 21.3, whereas the Dow P/E is now 20.2. While rising interest rates were blamed for much of the heavy selling, the truth is that many investors were just converting some of their paper profits into real profits. Even after the latest declines, the Wilshire index shows a gain of 26.5%, or \$644 billion, since the start of the year. The Dow, meanwhile, is up 30.9%, and the NYSE gained 26% over that period.

Closeup On the Equity Markets

Performance of six leading indexes						
Percent change	Wilshire 5000	Forbes 500²	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	-2.9	-2.6	-4.9	-3.0	-2.3	-1.7
in last 52 weeks	28.4	31.2	38.4	28.7	31.0	24.0

Stock performance based on six key investor yardsticks												
Percent change	Company size		Volatility³		P/E multiple		Dividend yield		Growth profile⁴		Share price	
	large	small	high	low	over 25	under 5	over 7.5%	none	high	low	over \$40	under \$4
in last 4 weeks	-2.3	-0.6	-1.4	-1.1	-1.9	-1.6	-1.0	-0.9	-2.5	-0.7	-1.6	-2.7
in last 52 weeks	28.9	50.4	71.3	22.3	31.9	17.4	9.7	66.6	67.8	20.0	26.9	43.0

¹Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. ²Based on sales. ³A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable. ⁴A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

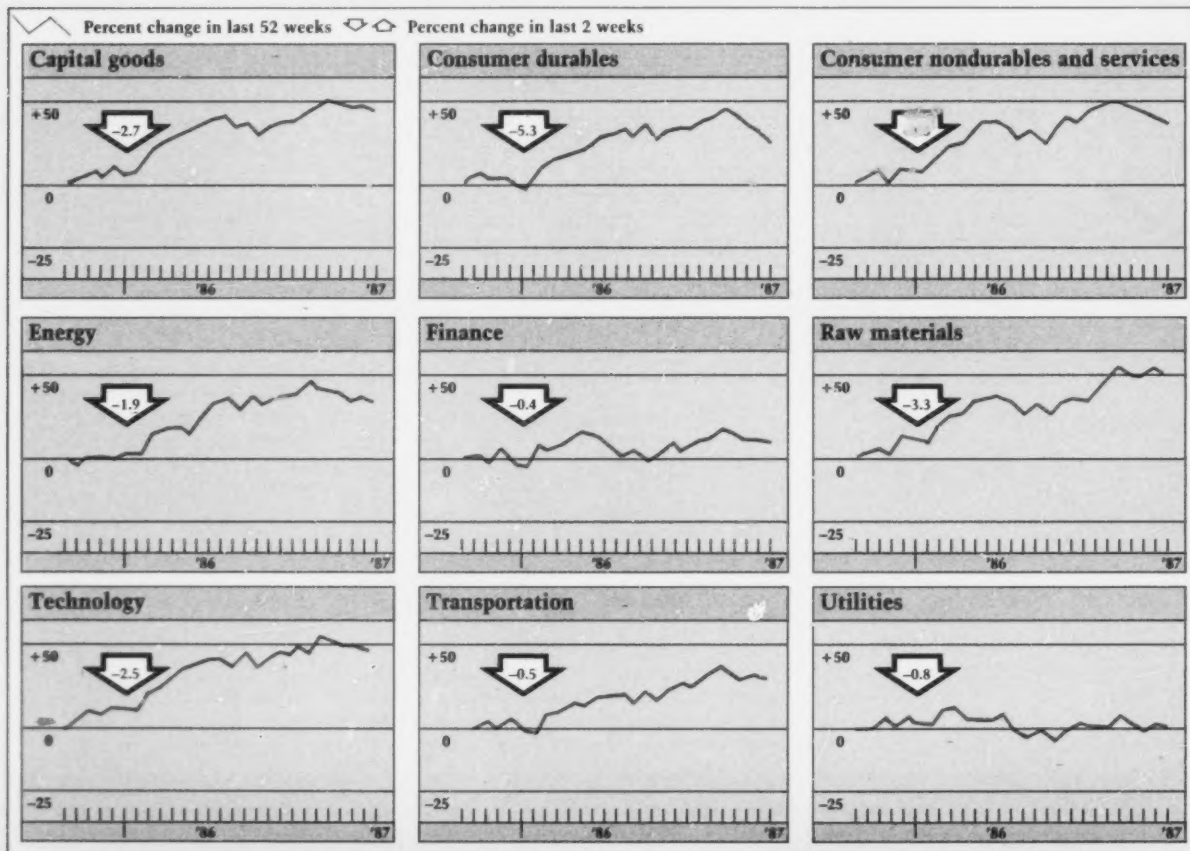
Note: All data for periods ending 10/9/87. Prepared by Wilshire Associates, Santa Monica, Calif.

Gay French

Where the Action Is

The market's sharp fall over the last ten trading days resulted in losses for all nine Wilshire sectors. The worst performer was consumer durables, which dropped more than twice as far as the overall market. General Motors, Zenith Electronics and Arvin Industries all fell over 11%. Four other groups lost more than the market: consumer nondurables, raw materials, capital goods and technology.

The finance sector fell only 0.4%. Alexander & Alexander went up 13%, while CNA Financial and Salomon gained more than 7%. Salomon was boosted by Warren Buffett's new interest in the company and a counteroffer for Salomon shares from Ronald Perelman. The whiff of takeover prompted restructuring moves that should make the company more profitable.



What the Analysts Think

Transportation companies are behind schedule. Wall Street analysts lowered their 1987 forecasts for some airlines, railroads and trucking firms. Estimates were re-

cently cut by 4% or more for CNW, NWA, Arkansas Best, AMR and PS Group, an aircraft leasing firm. In contrast, the forecast for Metro Airlines was raised sharply.

Forecasting the Forbes Sales 500			Rank based on change in estimate		Sector		Estimated 1987 EPS	P/E	% change in 1987 estimate in 2 weeks in 4 weeks	
Performance period	Average earnings per share	P/E	1	2	3	4	5	6	7	8
latest 12 months	\$2.29	20.4	Capital goods	2	Energy	3	Raw materials	4	Consumer nondurables	5
1987 estimates	2.90	16.0	Consumer durables	6	Technology	7	Finance	8	Transportation	9
1988 estimates	3.77	12.4								

Earnings projections are capitalization-weighted consensus estimates from over 2,000 security analysts. Data are compiled and updated continually by the Institutional Brokers Estimate System (IBES), a service of Lynch, Jones & Ryan, a New York-based brokerage firm.

Note: All data for periods ending 10/9/87. Prepared by Wilshire Associates, Santa Monica, Calif.; IBES, a service of Lynch, Jones & Ryan, New York.